

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2002-581

October 16, 2002

GLOBAL CROSSING, LTD
Request for Approval of Transfer of Assets
and to Encumber the Assets of GCL's Maine
Operating Subsidiaries from GCL to New GX

ORDER APPROVING
ENCUMBRANCE OF ASSETS

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. INTRODUCTION AND BACKGROUND

In this Order, we approve the request of Budget Call Long Distance, Inc., Global Crossing North American Networks, Inc. (f/k/a Frontier Communications International, Inc.), and Global Crossing Telecommunications, Inc. (f/k/a Allnet Communications Services, Inc. d/b/a Frontier Communications Services) (collectively, these companies are the Maine operating subsidiaries), filed by their current corporate parent entity, Global Crossing Ltd. (GCL), as Debtor-in-Possession, and their proposed future corporate parent, GC Acquisition Limited (New GX), to encumber the assets of GCL's Maine operating subsidiaries as part of a proposed plan of reorganization that will result in a transfer of control of GCL's Maine operating subsidiaries from GCL to New GX. The application filed with the Commission stated that GCL and New GX are the Applicants, but according to Maine law, it is the public utility, rather than the corporate parent, that requires Commission approval prior to entering into the type of transaction contemplated by proposed reorganization. The substance of the request is described fully in the filing, and our approval, therefore, is granted to the Maine operating subsidiaries to encumber their assets. The Maine operating subsidiaries are each authorized by the Commission to provide intrastate interexchange telecommunications service in Maine. GCL became the parent of each of the current Maine operating subsidiaries subsequent to their receipt of authority to provide service in Maine.

In their initial filing with the Commission on September 27, 2002, the Applicants sought approval pursuant to 35-A M.R.S.A. §§901 and 902, which requires public utilities "organized and existing or incorporated under the laws of the State" to obtain Commission approval of stock and bond issues. A review of the substance of the transaction indicates that none of the utilities are making such issuances. Instead, New GX, the parent entity of the Maine operating subsidiaries, will issue debt instruments that will be secured by the assets of the Maine operating subsidiaries. Therefore, approval pursuant to Sections 901 and 902 is not required for the proposed transaction. However, because the assets of the Maine operating subsidiaries will be encumbered as collateral for the proposed notes to be issued by the New GX, they must obtain approval pursuant to 35-A M.R.S.A. §1101. On October 1, 2002, the Applicants filed a

letter with the Commission indicating that they were seeking approval pursuant to Section 1101.

GCL is currently attempting to complete a corporate plan of reorganization pursuant to Chapter 11 of the United State Bankruptcy Code and Bermuda insolvency law. As part of the proposed reorganization, two companies, one based in Hong Kong and the other in Singapore, will invest a substantial sum of money in the New GX and will become owners of 61.5% of that entity. The remaining 38.5% of the equity and voting power of the New GX will be owned by the current creditors of GCL and its debtor subsidiaries. New GX will issue \$200 million in senior secured notes and \$300 million in cash to the creditors of GCL and its Maine operating subsidiaries. The notes are to be secured by the assets of various GCL subsidiaries, including the Maine operating subsidiaries. In addition, GCL will transfer substantially all of its assets, including its interests in the Maine operating subsidiaries to New GX. The United States Bankruptcy Court for the Southern District of New York and the Supreme Court of Bermuda have both authorized GCL to enter into the proposed transaction.

In approving the issuance of a Certificate of Public Convenience and Necessity to an interexchange carrier, the Commission has, on its own motion, granted the carrier an exemption from the provisions of Chapter 210 of the Commission's Rules, which requires use of a the Uniform System of Accounts, and of 35-A M.R.S.A. §§ 707 and 708, which require approval for affiliated interest transactions and reorganizations. The applicant utilities originally were authorized to provide interexchange service in Maine in Docket Numbers 95-290, 94-150 and 93-043. Because of the exemption from Section 708 granted in the orders in each of those cases, the subsequent transfer of control to GLC of each of the Maine operating subsidiaries did not require prior Commission approval. Similarly, the transfer of control to New GX proposed in the reorganization plan of GLC does not require prior Commission approval.

The Commission, however, has not granted a waiver of the requirements of Section 1101 of Title 35-A, which requires prior Commission approval for the encumbrance of any utility assets necessary for the performance of its utility obligations. In the present docket, the encumbrance of the assets of the Maine operating subsidiaries that are to be pledged as security for the notes to be issued by New GX as part of the bankruptcy reorganization plan requires prior Commission approval.

II. ANALYSIS AND DECISION

The applicants assert that the proposed transaction is in the public interest, because it will strengthen the financial and competitive positions of the Maine operating subsidiaries by enabling them to emerge from their current status in bankruptcy as stronger and more viable competitors. The proposed transaction is not expected to affect the day-to-day operations of the Maine operating subsidiaries and will be transparent to their customers, who will continue to receive service under their current rates and terms and conditions. Further, the applicants assert that the proposed transaction will not negatively affect competition in Maine.

Because the interexchange market in Maine is very competitive, the Commission exercises less regulatory control over interexchange carriers, as long as end-user customers are treated in a fair and lawful fashion. Customers have many options for interexchange service, and it is up to carriers in the market to win customers by providing high quality service at the lowest reasonable price. The Commission enforces rules that encourage competition and protect consumers' interests.

The proposed transaction does not appear to present any harm to the public interest. Having the parent and its Maine operating subsidiaries emerge from bankruptcy as strong competitors should enhance competition by providing stronger utilities that can meet the demands of the marketplace. Each of the Maine operating subsidiaries whose assets will be encumbered maintains only a relatively small share of the intrastate interexchange telecommunications market in Maine, and their customers have many options available should they choose to switch to another carrier.

Therefore, we

O R D E R

1. That Budget Call Long Distance, Inc., Global Crossing North American Networks, Inc. and Global Crossing Telecommunications, Inc. are authorized to encumber their Maine operating assets as security for a note to be issued by their proposed new parent, GC Acquisition Limited, as part of a proposed plan of reorganization by their current parent, Global Crossing Ltd., pursuant to Chapter 11 of the Bankruptcy Code of the United States and Bermuda insolvency law.

Dated at Augusta, Maine, this 16th day of October, 2002.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Nugent
Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.